



***Tennessee Tax Revenue Estimates
for
FY2015-2016 and FY2016-2017***

***Prepared by:
Fiscal Review Committee Staff
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Economic Outlook - Jobs

- **Total nonfarm payrolls (SA) continue steady growth**
 - October 2015: added 271,000 jobs
 - With revisions to August and September data: added an average of 187,000 jobs per month over last 3 months; 235,000 jobs per month over last 12 months.
 - TN: added an average of 3,133 jobs per month over last 3 months; 3,892 jobs per month over last 12 months.
- **Unemployment rates will continue improving:**
 - Actual U.S. Unemployment Rate (Oct 2015): 5.0%
 - Projected U.S. Unemployment Rate (Dec 2015): 5.0%
 - Projected U.S. Unemployment Rate (Jun 2016): 4.8%
 - Projected U.S. Unemployment Rate (Dec 2016): 4.7%





Economic Outlook - Income

- ❑ Employment Cost Index: Wages/Salaries (Private Industry Workers):
 - 2009(Q2) → 2014 (Q2): Below 2.0% year-over-year growth
 - Since 2014 (Q3): Above 2.0% year-over-year growth
- ❑ Avg. hourly earnings for all employees on private nonfarm payrolls rose 9 cents in October (vs. 1 cent in September) – up 2.5% year-over-year.
- ❑ Real Personal Income Growth:
 - Aug 2015: + 3.86% year-over-year
 - Sep 2015: + 3.90% year-over-year
- ❑ Real Disposable Personal Income Growth:
 - Aug 2015: + 3.27% year-over-year
 - Sep 2015: + 3.41% year-over-year





Economic Outlook - Consumption

- ❑ Index of consumer expectations up in Oct. by 5.0% month-over-month ; 3.1% year-over-year.
- ❑ Growth in real personal consumption expenditures: sustainable, ranging between 2.5% and 3.5%.
- ❑ Growth in real retail and food service sales: sustainable, ranging between 2.0% to 3.0%.
- ❑ Growth in light vehicle sales: rate of growth starting to slow, but still sustainable. 17.7 M units (2015); 17.9 M units (2016); 18.0 M units (2017).
- ❑ Anticipated 2015 holiday sales growth: 3.7% (The National Retail Federation).





Economic Outlook - Housing

- Housing/Construction continues recovery:
 - Growth expected to be fairly robust
 - September 2015: 1.21 million new units per year – eight-year high; best since Oct 2007.
 - Relative to 2.2 million new units in 2005-06.
 - Fannie Mae (October 2015) – Total home sales growth forecast 8.0% in 2015; and an additional 4.0% in 2016.
 - National Association of Home Builders (August 2015): TN ranked 6th for best year-over-year growth (38.0%) in building permits issued.
 - Pent up demand: millennials are coming; large cohort soon to be first-time buyers; delayed home purchases due to student debt; relatively tighter mortgage credit.





Economic Outlook – Crude, Inflation

- Low crude oil prices:
 - As of 11/09/2015: Brent Crude is \$47.42 per barrel; WTI Crude is \$44.29 per barrel
 - Gas prices as of 11/09/2015: \$2.22 (U.S.); \$2.02 (TN)
 - Gas prices 1 year prior: \$2.93 (U.S.); \$2.70 (TN)
 - National consumption: 136.8 billion gallons in 2014
 - Effect: injection into the U.S. economy: \approx \$100 billion; and an injection into TN economy \approx \$2 billion
- What about inflation?
- CPI (all items less food & energy): 1.9% year-over-year in September 2015.
- Inflation: expected to range between 2.0% and 2.5%.





FRC Economic Outlook - Rates

- ❑ 64% of economists surveyed (WSJ) predict Fed will increase rates in Dec. 2015 meeting.
- ❑ Dependent on jobs report released in Dec.
- ❑ Fed will begin gradually increasing the federal funds rate in Dec 2015
 - *Actual rate (Jun 2015): 0.13%*
 - *Average Projected Rate (Dec 2015): 0.32%*
 - *Average Projected Rate (June 2016): 0.72%*
 - *Average Projected Rate (Dec 2016): 1.19%*
 - *Average Projected Rate (June 2017): 1.71%*





Economic Outlook – GDP, Recession

- **Result: a continued moderate economic expansion**
 - Actual GDP growth (2014) = 2.4%
 - Projected GDP growth (2015) \approx 2.3%
 - Projected GDP growth (2016) \approx 2.7%
 - Projected GDP growth (2017) \approx 2.5%
- **Recession Probability (WSJ Survey):**
 - July 2015: 10.02%
 - August 2015: 9.84%
 - September 2015: 9.97%
 - October 2015: 15.34%





Key Forecasting Issues

- ❑ Is growth in sales tax collections sustainable?
- ❑ Is continued uptick in fuel tax collections sustainable?
- ❑ What's going on with tobacco tax collections?
- ❑ What happens with Hall income tax collections after annual growth rates of 0.6%, 26.1%, 2.5%, and 26.7% over last four years (FY11-12 → FY14-15) respectively?
- ❑ What happens with F&E collections after annual growth rates of 22.3%, 9.1%, -8.0%, and 18.8% over last four years (FY11-12 → FY14-15) respectively?
- ❑ When will inheritance tax collections go away for good pursuant to PC1057 (2012)?





TN Tax Revenue Outlook

- ❑ Conducive for good tax revenue growth for TN in FY15-16 and FY16-17:
 - Total Revenue Growth of **4.08%** in FY15-16 (relative to preliminary accruals provided for FY14-15)
 - General Fund Growth of **3.99%** in FY15-16 (relative to preliminary accruals provided for FY14-15)
 - Total Revenue Growth of **3.50%** in FY16-17
 - General Fund Growth of **3.89%** in FY16-17





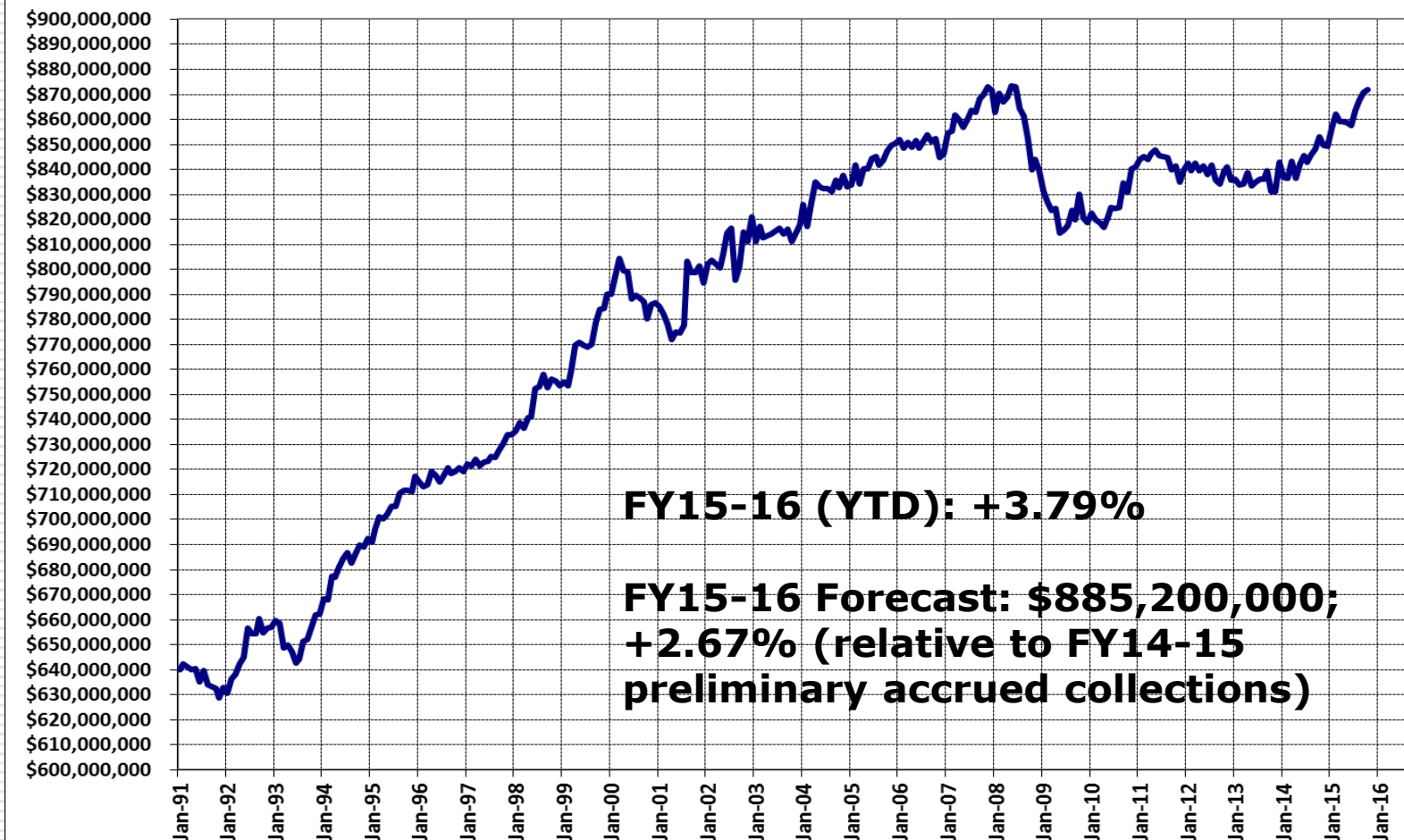
Base Analysis for Sales Tax

	FY13-14	Growth over FY12-13	FY14-15	Growth over FY13-14	FY15-16	Growth over FY14-15
August	3.75%	3.53%	6.73%	6.44%	8.26%	7.48%
September	3.50%		5.32%		6.45%	
October	2.91%		7.27%		7.73%	
November	3.97%	3.54%	7.28%	6.10%	?	5.56%
December	2.53%		5.87%		?	
January	4.95%		7.80%		?	
February	1.10%		7.62%		?	
March	5.51%		-3.17%		?	
April	4.04%		5.14%		?	
May	0.93%		9.06%		?	
June	5.54%		7.62%		?	
July	3.17%		7.01%		?	
Year-over-Year (cash)		3.53%	6.18%		6.03%	



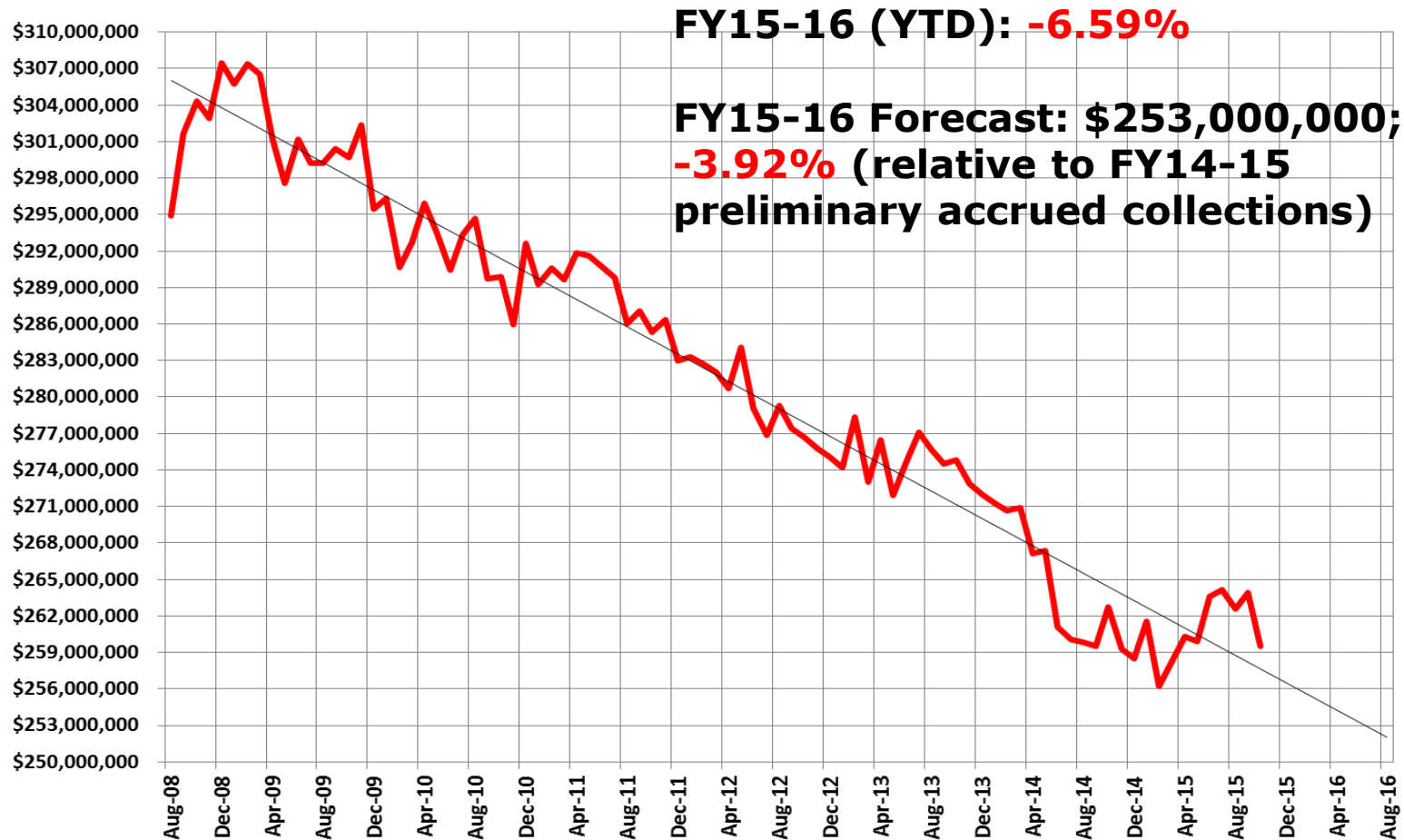


Fuel Taxes (12 month MS)



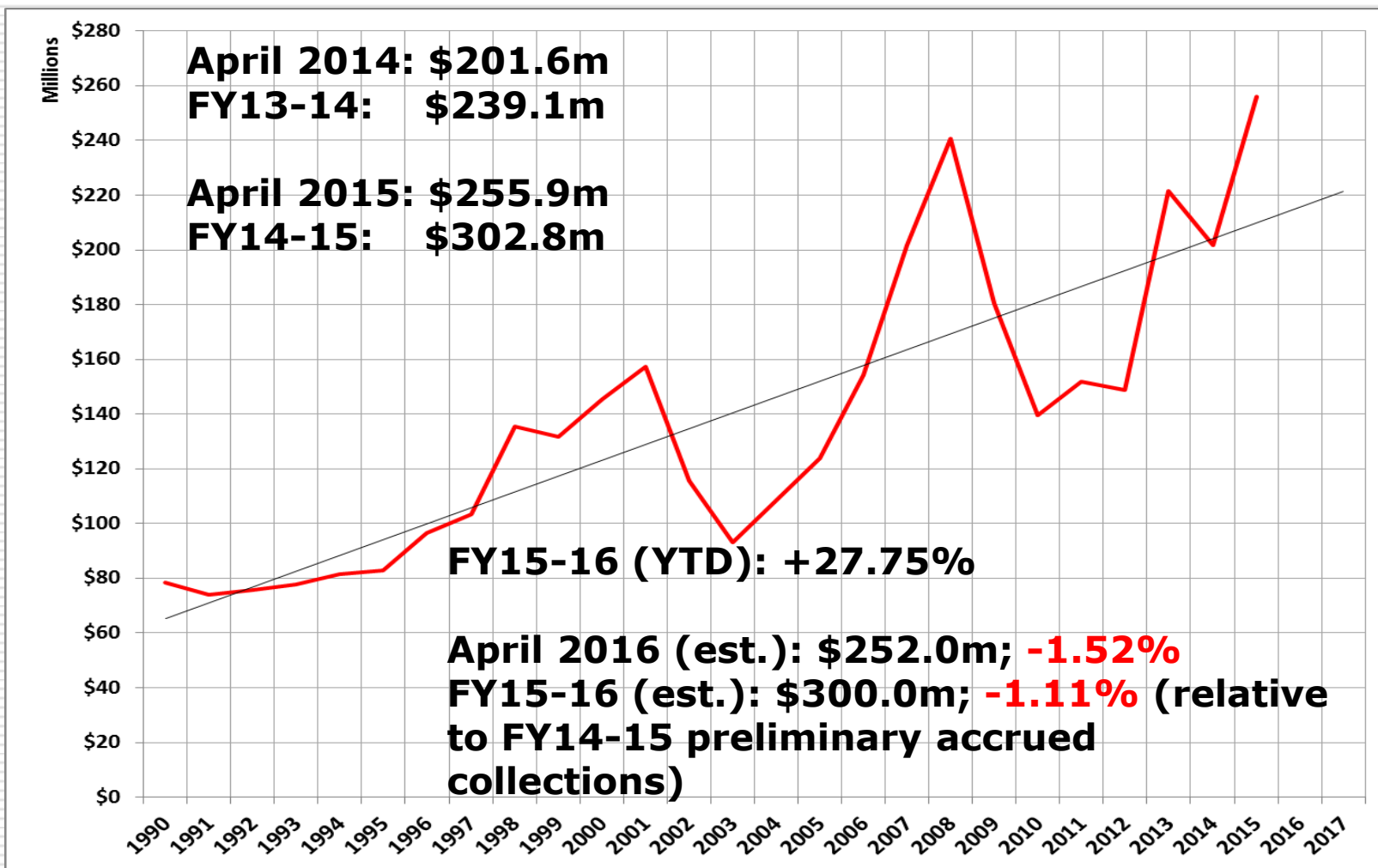


Tobacco Tax (12 month MS)



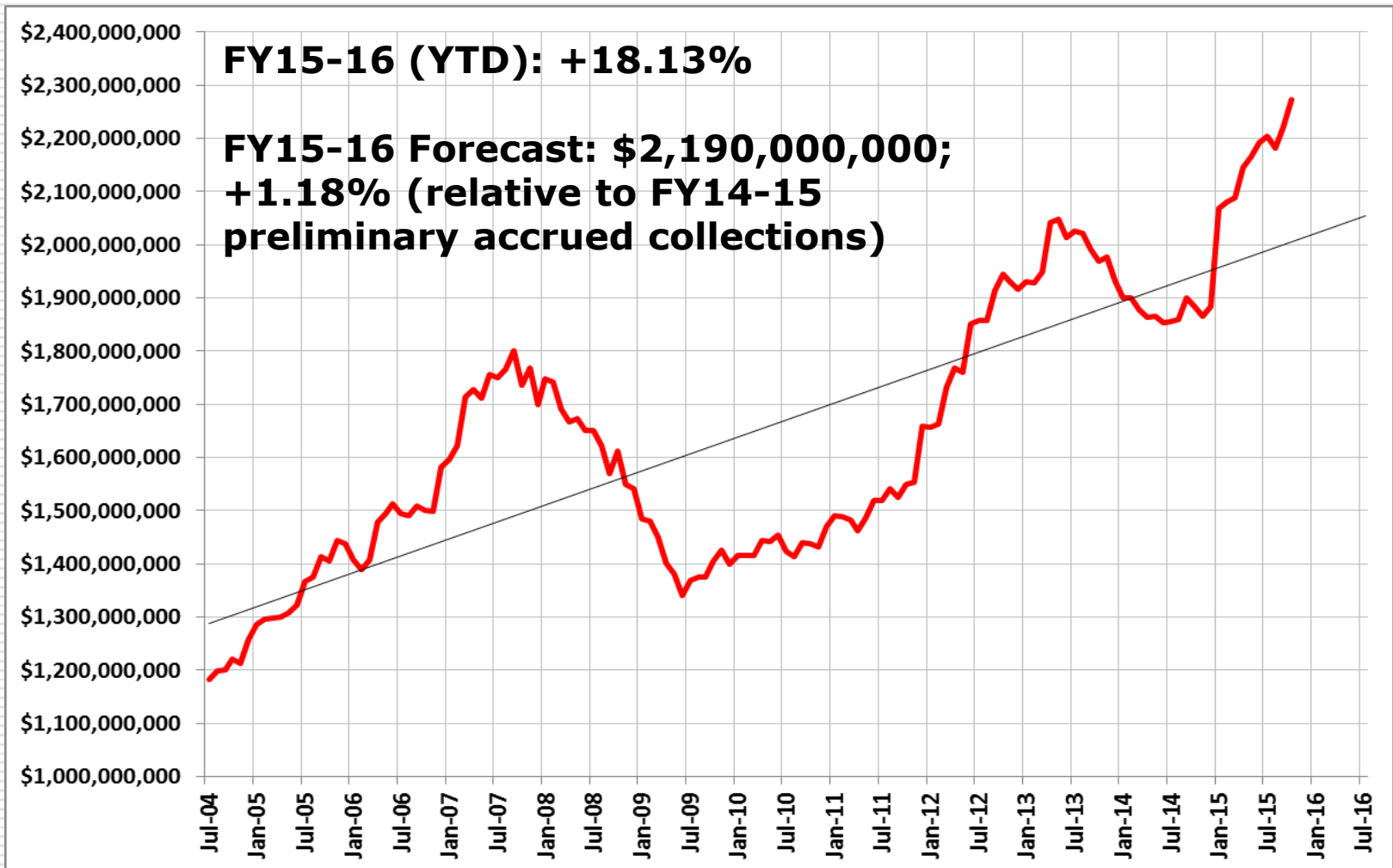


Hall Income Tax – April





Franchise and Excise Taxes (12 month MS)





F&E (After extraordinary growth)

- ❑ Since FY68-69, eight years in which F&E growth was 17.0% or better.
- ❑ What happened the following year?

<i>Year</i>	<i>Growth Rate</i>	<i>Next Year</i>	<i>Growth Rate</i>
FY71-72	28.7%	FY72-73	30.6%
FY72-73	30.6%	FY73-74	8.3%
FY76-77	17.3%	FY77-78	9.3%
FY83-84	18.4%	FY84-85	25.9%
FY84-85	25.9%	FY85-86	6.8%
FY99-00	20.3%	FY00-01	3.5%
FY06-07	17.0%	FY07-08	-5.6%
FY11-12	22.3%	FY12-13	9.1%
AVG	22.5%	AVG	14.1%
Historically: Each 1.0% in Y1 led to:			<u>0.62%</u>
FY14-15	18.8%	FY15-16 (YTD)	18.1%
Current Year: Each 1.0% leading to:			<u>0.96%</u>





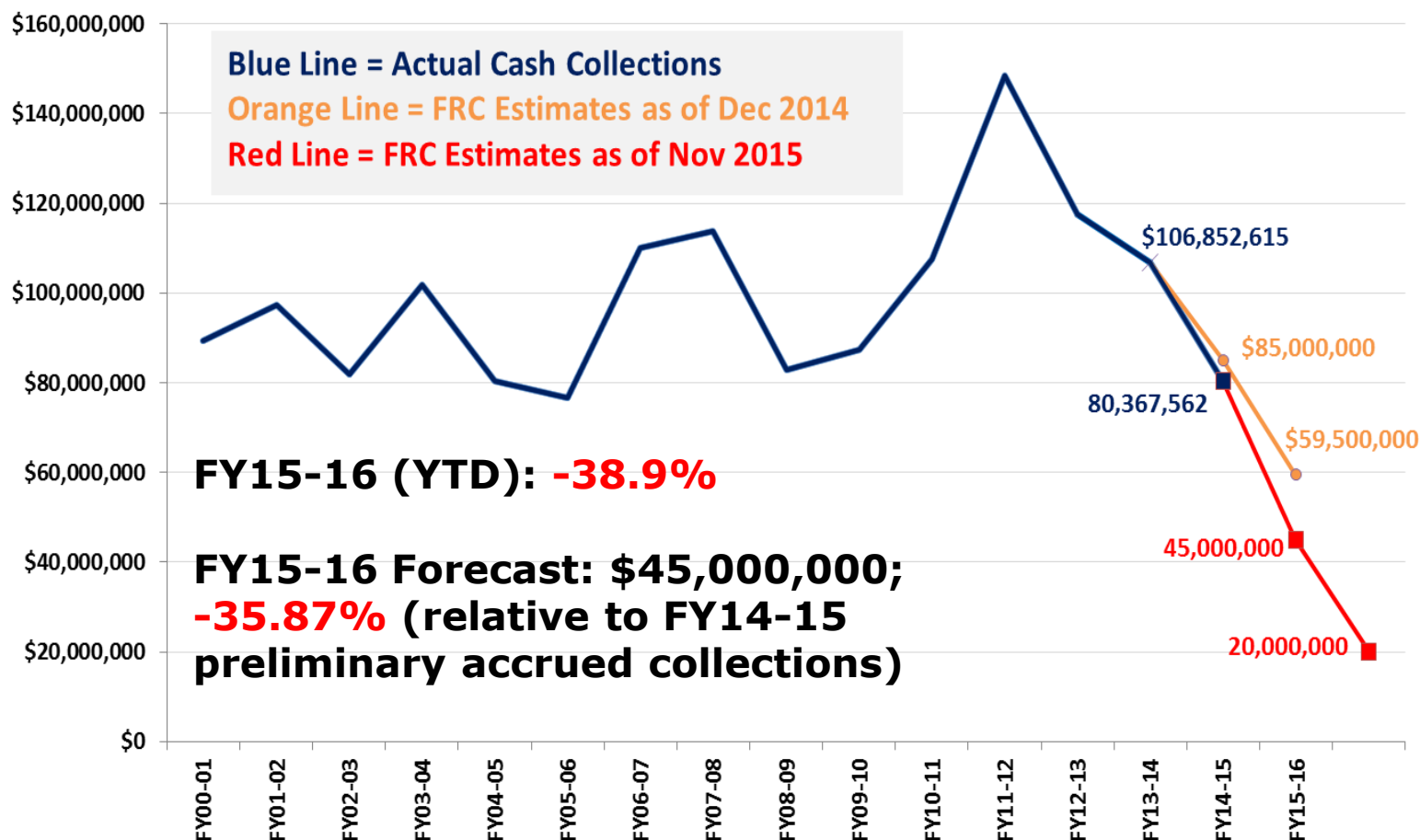
Base Analysis for F&E Taxes

	FY13-14	Growth over FY12-13	FY14-15	Growth over FY13-14	FY15-16	Growth over FY14-15
August	-10.69%	-14.10%	9.25%	7.94%	-65.78%	18.13%
September*	-10.37%		14.95%		13.27%	
October	-33.64%		-37.96%		184.12%	
November	30.61%	-6.98%	-53.43%	21.30%	?	-4.52%
December*	-17.89%		9.88%		?	
January*	-18.87%		131.46%		?	
February	0.45%		31.34%		?	
March*	-11.02%		4.31%		?	
April**	-2.74%		12.27%		?	
May	2.73%		42.74%		?	
June**	-3.55%		8.23%		?	
July	2.93%		17.56%		?	
Year-over-Year (cash)		-8.42%	18.76%		-0.62%	





Inheritance Tax





Growth Forecasts: FY15-16 & FY16-17

Tax Source	FY15-16			FY16-17
	FY15-16 YTD Growth (Cash)	Growth Forecast for Remainder of FY15-16 (Cash)	Growth Forecast for FY15-16 (Cash)	Growth Forecast for FY16-17 (Accrual)
Sales Tax	7.48%	5.56%	6.03%	4.52%
Motor Fuels	3.79%	2.09%	2.52%	1.38%
Income	27.75%	-1.78%	-0.93%	-10.00%
F&E	18.13%	-4.52%	-0.62%	4.57%
All Other	-4.41%	-1.26%	-2.02%	0.54%
Total	7.01%	2.38%	3.43%	3.50%

***Growth rate forecasts for FY15-16 are relative to FY14-15 cash collections**





Estimates for FY15-16 & FY16-17

REVENUE SOURCE	ACTUAL PRE - ACCRUAL COLLECTIONS FY14-15	FRC STAFF TAX REVENUE ESTIMATES FY15-16	PERCENT INCREASE OVER FY14-15	FRC STAFF TAX REVENUE ESTIMATES FY16-17	PERCENT INCREASE OVER FY15-16
SALES & USE TAX	\$7,706,059,500	\$8,190,000,000	6.3%	\$8,560,000,000	4.5%
GASOLINE TAX	\$631,824,300	\$651,000,000	3.0%	\$660,500,000	1.5%
MOTOR FUEL TAX	\$165,504,800	\$168,000,000	1.5%	\$170,000,000	1.2%
GASOLINE INSPECTION TAX	\$64,827,700	\$66,200,000	2.1%	\$66,900,000	1.1%
MOTOR VEHICLE REG. TAX	\$261,832,400	\$266,000,000	1.6%	\$270,000,000	1.5%
INCOME TAX	\$303,353,500	\$300,000,000	-1.1%	\$270,000,000	-10.0%
PRIVILEGE TAX - LESS EARMARKED*	\$308,789,900	\$319,000,000	3.3%	\$329,000,000	3.1%
GROSS RECEIPTS TAX: TVA	\$348,601,300	\$348,912,000	0.1%	\$356,000,000	2.0%
GROSS RECEIPTS TAX: OTHER	\$28,722,600	\$26,000,000	-9.5%	\$28,000,000	7.7%
BEER TAX*	\$16,917,200	\$18,100,000	7.0%	\$18,400,000	1.7%
ALCOHOLIC BEVERAGE TAX	\$56,992,800	\$62,000,000	8.8%	\$64,000,000	3.2%
FRANCHISE & EXCISE TAX	\$2,164,486,000	\$2,190,000,000	1.2%	\$2,290,000,000	4.6%
INHERITANCE TAX	\$70,173,100	\$45,000,000	-35.9%	\$20,000,000	-55.6%
TOBACCO TAX	\$263,327,000	\$253,000,000	-3.9%	\$251,000,000	-0.8%
MOTOR VEHICLE TITLE FEES	\$12,098,400	\$18,300,000	51.3%	\$18,500,000	1.1%
MIXED DRINK TAX	\$85,983,000	\$94,000,000	9.3%	\$99,000,000	5.3%
BUSINESS TAX	\$153,340,900	\$143,000,000	-6.7%	\$148,000,000	3.5%
SEVERANCE TAX	\$2,138,900	\$2,000,000	-6.5%	\$2,000,000	0.0%
AMUSEMENT TAX	\$303,800	\$300,000	-1.3%	\$300,000	0.0%
UNAUTHORIZED SUBSTANCE TAX	\$600	\$0	N/A	\$0	N/A
TOTAL REVENUE	\$12,645,277,700	\$13,160,812,000	4.1%	\$13,621,600,000	3.5%

*Privilege Tax estimates are reduced by \$43.0 million for the earmarked portion of the tax.





FY15-16: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS	GENERAL FUND
	<u>FY15-16</u>	<u>FY15-16</u>
SALES & USE TAX	\$8,190,000,000	\$7,727,496,000
GASOLINE TAX	\$651,000,000	\$9,977,000
MOTOR FUEL TAX	\$168,000,000	\$3,191,000
GASOLINE INSPECTION TAX	\$66,200,000	\$19,435,000
MOTOR VEHICLE REGISTRATION TAX	\$266,000,000	\$46,990,000
INCOME TAX	\$300,000,000	\$195,813,000
PRIVILEGE TAX	\$319,000,000	\$316,842,000
GROSS RECEIPTS TAX: TVA	\$348,912,000	\$194,563,000
GROSS RECEIPTS TAX: OTHER	\$26,000,000	\$22,311,000
BEER TAX	\$18,100,000	\$12,205,000
ALCOHOLIC BEVERAGE TAX	\$62,000,000	\$51,253,000
FRANCHISE & EXCISE TAX	\$2,190,000,000	\$1,906,400,000
INHERITANCE TAX	\$45,000,000	\$45,000,000
TOBACCO TAX	\$253,000,000	\$253,000,000
MOTOR VEHICLE TITLE FEES	\$18,300,000	\$15,600,000
MIXED DRINK TAX	\$94,000,000	\$46,947,000
BUSINESS TAX	\$143,000,000	\$143,000,000
SEVERANCE TAX	\$2,000,000	\$846,000
AMUSEMENT TAX	\$300,000	\$300,000
UNAUTHORIZED SUBSTANCE	\$0	\$0
TOTAL REVENUE	\$13,160,812,000	\$11,011,169,000





FRC Estimates for FY15-16 Relative to Current Budgeted Estimates

CURRENT FRC STAFF ESTIMATE FOR FY15-16	
SALES TAX	\$8,190,000,000
FRANCHISE & EXCISE TAXES	\$2,190,000,000
ALL FUNDS	\$13,160,812,000
GENERAL FUND	\$11,011,169,000
CURRENT BUDGETED ESTIMATE FOR FY15-16	
SALES TAX	\$7,894,200,000
FRANCHISE & EXCISE TAXES	\$1,937,900,000
ALL FUNDS	\$12,510,600,000
GENERAL FUND	\$10,422,300,000
EST. OVERAGE/(SHORTAGE) COMPARED TO CURRENT BUDGETED ESTIMATE FOR FY15-16:	
SALES TAX	\$295,800,000
FRANCHISE & EXCISE TAXES	\$252,100,000
ALL FUNDS	\$650,212,000
GENERAL FUND	\$588,869,000
ACT. GENERAL FUND FOR FY14-15:	\$10,588,892,800
EST. GENERAL FUND INCREASE OVER FY14-15:	\$422,276,200





FY16-17: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS	GENERAL FUND
	<u>FY16-17</u>	<u>FY16-17</u>
SALES & USE TAX	\$8,560,000,000	\$8,076,601,000
GASOLINE TAX	\$660,500,000	\$10,123,000
MOTOR FUEL TAX	\$170,000,000	\$3,228,000
GASOLINE INSPECTION TAX	\$66,900,000	\$19,640,000
MOTOR VEHICLE REGISTRATION TAX	\$270,000,000	\$47,697,000
INCOME TAX	\$270,000,000	\$176,232,000
PRIVILEGE TAX	\$329,000,000	\$326,775,000
GROSS RECEIPTS TAX: TVA	\$356,000,000	\$198,515,000
GROSS RECEIPTS TAX: OTHER	\$28,000,000	\$24,027,000
BEER TAX	\$18,400,000	\$12,407,000
ALCOHOLIC BEVERAGE TAX	\$64,000,000	\$52,907,000
FRANCHISE & EXCISE TAX	\$2,290,000,000	\$2,006,400,000
INHERITANCE TAX	\$20,000,000	\$20,000,000
TOBACCO TAX	\$251,000,000	\$251,000,000
MOTOR VEHICLE TITLE FEES	\$18,500,000	\$15,800,000
MIXED DRINK TAX	\$99,000,000	\$49,444,000
BUSINESS TAX	\$148,000,000	\$148,000,000
SEVERANCE TAX	\$2,000,000	\$846,000
AMUSEMENT TAX	\$300,000	\$300,000
UNAUTHORIZED SUBSTANCE	\$0	\$0
TOTAL REVENUE	\$13,621,600,000	\$11,439,942,000

